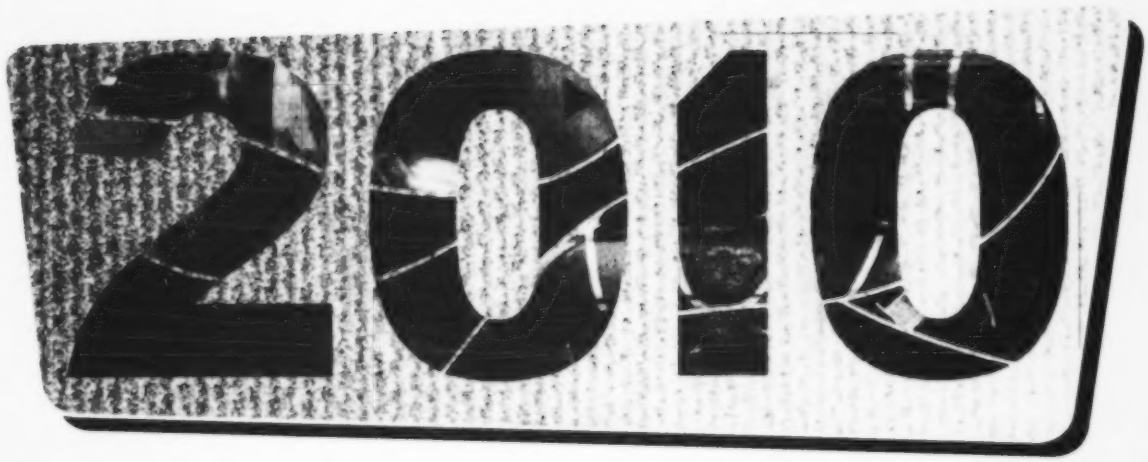
CRIMINAL INTELLIGENCE SERVICE CANADA



REPORT ON ORGANIZED CRIME

25th Anniversary

Research for this report concluded May 2010

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MESSAGES

MESSAGE FROM THE CHAIR

RCMP COMMISSIONER
WILLIAM J. S. ELLIOTT

Organized crime extends its reach beyond single jurisdictions and underpins many of the most serious threats that exist today. Just as geographic boundaries are not a barrier to organized crime, they must not be a barrier to its prevention. In order for Canada to disrupt illicit activity and bring criminals to justice it is essential to forge strong partnerships within law enforcement and with government and global institutions and the Canadian public.

In addressing Canada's national policing priorities on behalf of the RCMP, I recognize that our success relates directly to the effectiveness of such partnerships. As Chair of the National Executive Committee of Criminal Intelligence Service Canada (CISC), it is my distinct pleasure to work with senior leaders from policing and law enforcement agencies across Canada. Our collective focus aims to build on the intelligence capacity in Canada and minimize the impact that criminal activity has in our homes and neighbourhoods and on society as a whole.

Organized crime is constantly evolving and adapting to exploit new opportunities. The 2010 Report on Organized Crime provides an overview of the current direction and scope of criminal markets that are predominant in Canada. Broad public awareness is vital to helping Canadians avoid organized crime, whether as victims or unwitting supporters, and it is important that Canadians have an up-to-date understanding of the various types of threats involved. Organized crime comes in many forms, from the visible menace posed by street gangs to the more veiled threat presented by financial crimes such as securities fraud. Both of these areas are covered in the report, along with an examination of other illicit activities that impact Canada's public safety and economic integrity.

This report is the product of the shared expertise and effective partnerships that result when boundaries are bridged and efforts joined. CISC partners will continue to work together and will continue our efforts to keep Canadians informed so that we may reduce the harmful effects of organized crime on Canadian society.

MESSAGE FROM THE DIRECTOR GENERAL

CHIEF SUPERINTENDENT
MICHEL AUBIN, RCMP

Together with our provincial bureaus and over 400 member agencies, CISC promotes an integrated, intelligence-led policing model for the collection, analysis and sharing of vital criminal intelligence and information. This integrated approach unites the Canadian criminal intelligence community, bringing together law enforcement partners at the municipal, provincial and federal levels. By combining our collective expertise and resources and using technology to ensure timely access to information, the result of our common efforts is truly greater than the sum of our parts.

The combined efforts of CISC's member agencies enable us to produce strategic products and services that comprehensively assess the threat of organized crime in Canada. The resulting strategic assessments provide the foundation for the development of more effective policy and strategies to reduce the negative effects of crime on our communities.

The 2010 CISC Report on Organized Crime marks the 25th anniversary of this document as a public resource. As with past editions, the report examines criminal markets and highlights the most significant known threats currently posed to the Canadian public. The topic of street gangs is examined and provides insight into this particular criminal phenomenon. In addition, this year's Feature Focus centres on an issue that has elicited considerable interest throughout the country — securities fraud. In Canada, several recent cases of securities fraud generated significant public attention due to thousands of investors losing hundreds of millions of dollars. These often-complex frauds can affect scores of investors in multiple countries and demand the careful coordination of many law enforcement and regulatory agencies to investigate such cases.

The Feature Focus also emphasizes the importance of effective partnerships and coordinated information sharing between law enforcement agencies and each of the provincial security commissions. It also encourages heightened public awareness to counter the allure of fraudulent get-rich-quick schemes and to protect investments.

I would like to extend my sincere gratitude to the CISC Provincial Bureaus and all government and law enforcement member agencies for their valuable contributions to this report.

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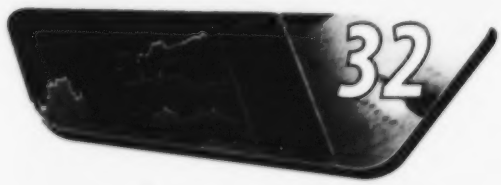

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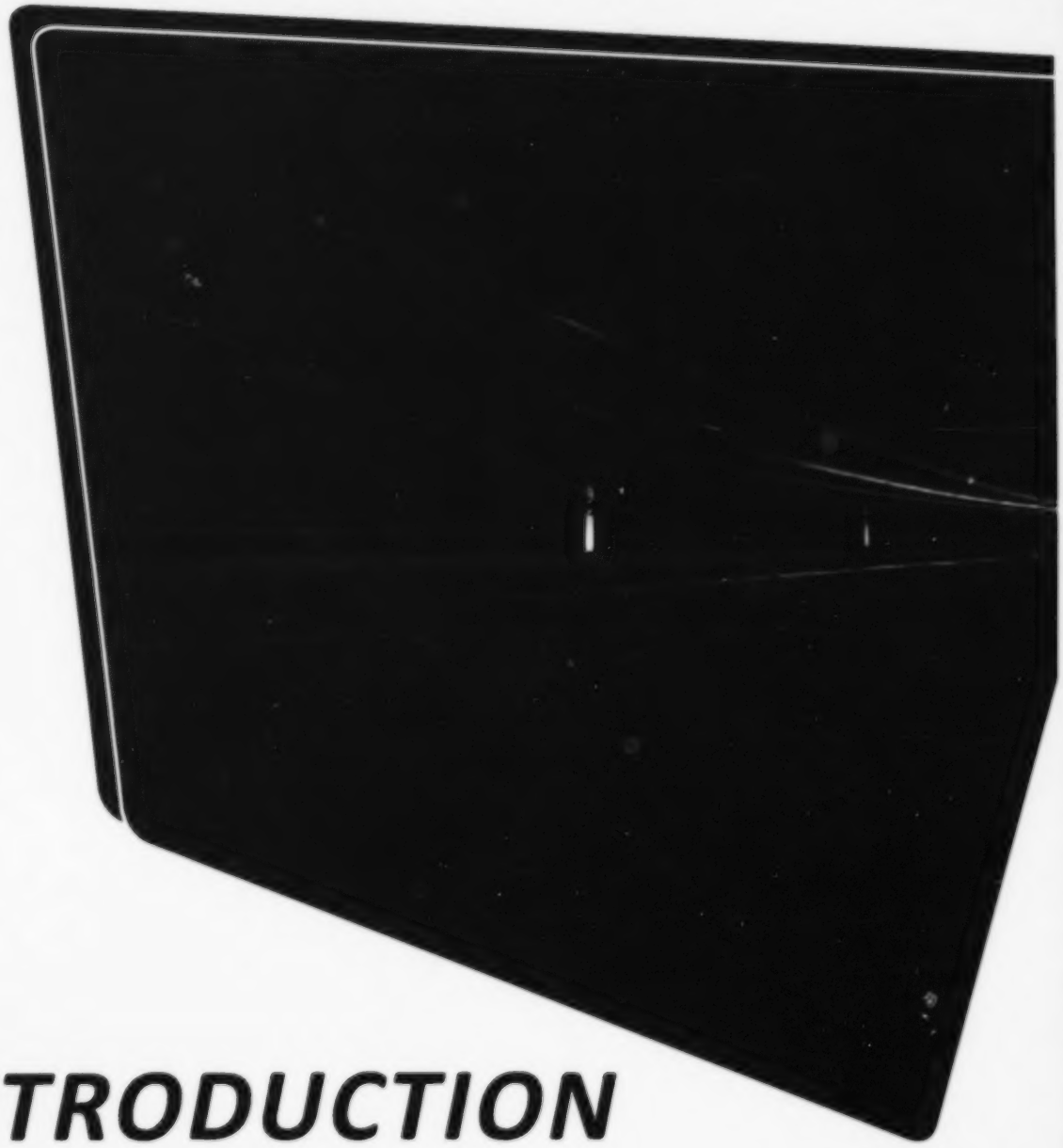


INTRODUCTION

INTRODUCTION

Intelligence-led policing is a strategic business model that supports proactive decision making for resource allocation and crime prevention. This model was entrusted to Criminal Intelligence Service bureaus in Canada by the Canadian Association of Chiefs of Police in combating the threat of organized crime. The role of the national and provincial bureaus in advancing this model is to facilitate a cross-agency assessment of criminal markets, identify existing crime patterns and anticipated criminal trends through a rigorous analysis of shared data and criminal information. Working with over 400 member agencies across Canada, Criminal Intelligence Service Canada (CISC) Central Bureau is well positioned to assist in informed decision-making by senior government and law enforcement officials.

While this report offers insight into how law enforcement is working together to detect, disrupt and prevent the harmful effects of organized crime, it is also intended to offer the public a glance into some of the criminal markets that are active in the Canadian environment. The first section examines the foundations of organized crime and, because this is the 25th anniversary of the CISC *Report on Organized Crime*, it also provides a general overview of the evolution of organized crime in Canada. In addition, this area also examines street gangs and serves to position this issue within the overall context of organized crime. In the next section, some criminal markets are explored along with a number of global trends. This is followed by a feature focus on securities fraud, which can be a less visible form of organized criminal activity but one that is highly lucrative with far reaching implications.

"The investigative successes we have experienced speak volumes about the effectiveness of a coordinated, intelligence-led approach to organized crime." Commissioner Julian Fantino, Ontario Provincial Police

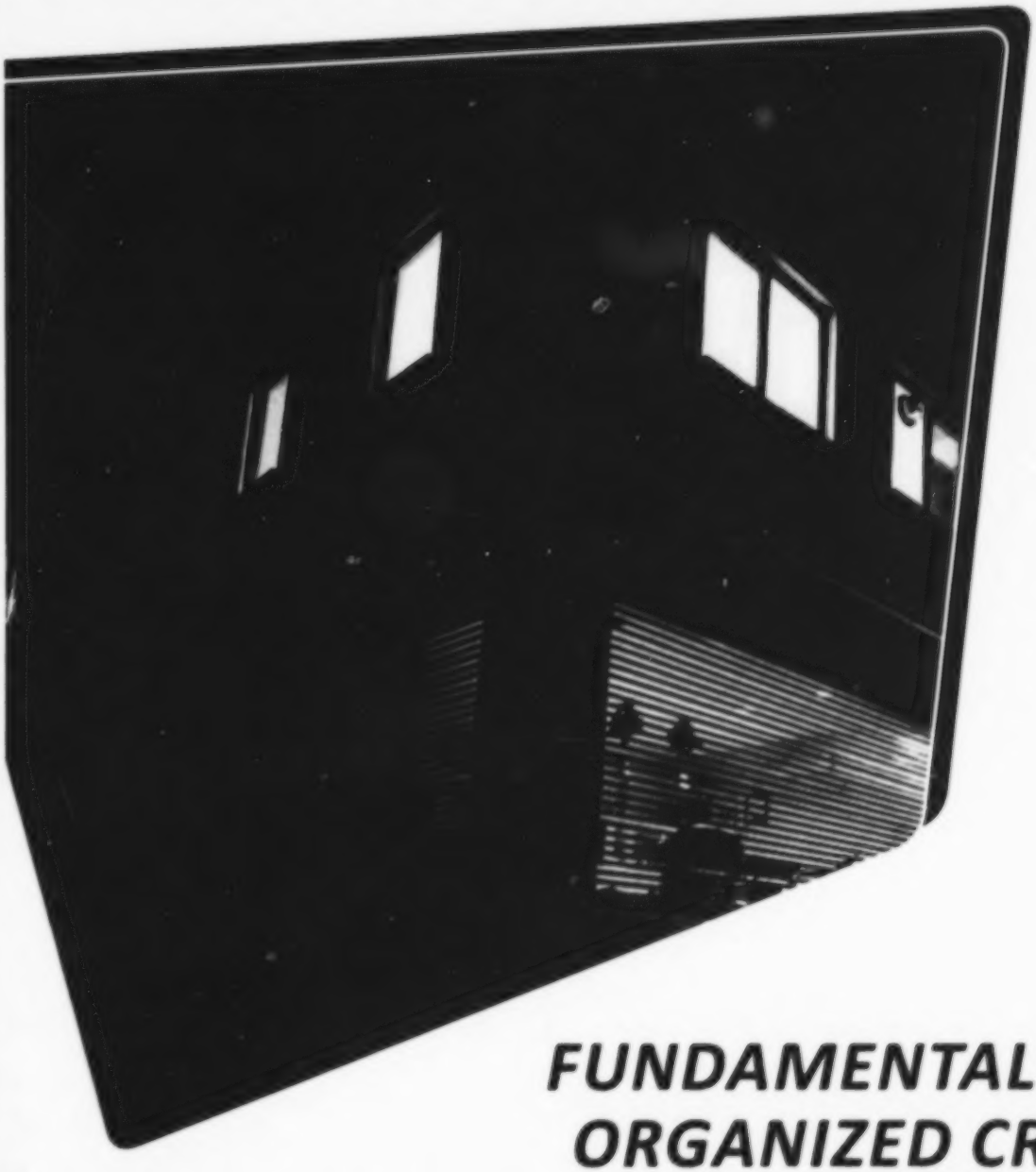
Why publish a public report on organized crime?

Law enforcement is working together to connect the dots across multiple jurisdictions, but the public also has a vital role. It is not always feasible to know what is happening in every neighbourhood and that is why it is important for the public to inform and alert law enforcement to suspicious activity. Providing information and forming partnerships with law enforcement will assist not only in better assessing criminal activity, but also in building associated strategies to combat organized crime. Reporting suspicion of criminal activity, even after the fact, can be an effective means of preventing similar incidents from occurring.

The report provides Canadians an overview of the criminal markets that are prevalent in Canada and alerts them to the potential threats of illicit activity. The feature focus on securities fraud, for example, is intended to promote much needed awareness of investor fraud. By having an understanding of how organized crime operates, an informed public is in a better position to contact the proper authorities that will ensure safer homes and communities across Canada.

If you have witnessed or are aware of an incident, suspect fraud, or feel that you may be a victim of illicit activity, following are some ways to respond:

Provide information about criminal activity anonymously:	CRIME STOPPERS, 1-800-222-TIPS (8477) or visit the closest Crime Stopper program near you at www.canadiancrimestoppers.org
Report identity theft and fraud:	CANADIAN ANTI-FRAUD CENTRE (formerly PhoneBusters), 1-888-495-8501
Provide information relating to suspicious cross-border activity:	BORDER WATCH TOLL-FREE LINE, 1-888-502-9060 (a service provided by the Canada Border Services Agency
Find more available resources and help centres:	LOCAL POLICE STATION or MUNICIPAL GOVERNMENT



FUNDAMENTALS OF ORGANIZED CRIME

This section deals specifically with how organized crime has evolved over the last few years and examines some of the methods that facilitate criminal activity in Canada. It is meant to provide an understanding of organized crime, which continues to lie behind many of the most serious criminal threats that exist today. A spotlight on street gangs is also found in this section and provides insight into this particular criminal phenomenon within the larger context of organized crime.

WHAT IS ORGANIZED CRIME?

CISC and its member agencies use the *Criminal Code* definition to identify and assess organized crime in Canada. In using this definition, all contributing agencies base their assessments on the same criteria. This enables the CISC community to produce the broadest and most accurate assessment of organized crime groups. The *Criminal Code* (Section 467.1) definition is as follows:

"Criminal organization" means a group, however organized, that

A. is composed of three or more persons in or outside of Canada; and

B. has as one of its main purposes or main activities the facilitation or commission of one or more serious offences that, if committed, would likely result in the direct or indirect receipt of a material benefit, including a financial benefit, by the group or by any of the persons who constitute the group.

It does not include a group of persons that forms randomly for the immediate commission of a single offence.

A LOOK BACK AT ORGANIZED CRIME

Responding to the changing nature of criminal activity, CISC's *Report on Organized Crime* has evolved significantly over the years. Operating in a competitive marketplace, organized crime groups adapt the direction and scope of their illicit activities according to existing conditions and new opportunities. While a retrospective on organized crime is a broad and complex topic, the following are some general developments and trends relating to the evolution of organized crime in Canada.

"Organized crime is more than the sum of its parts. It is a highly sophisticated economic, political and social phenomenon and it is essential that, as a nation, we find innovative means of addressing it. The challenge of organized crime is not a challenge to any one institution or police force, but is directed at every single one of us. For this reason, cooperation, whether between agencies, between governments, or between individual Canadians and their communities, is the single most effective weapon that we have against organized crime."

Deputy Commissioner Gary Bass, Pacific Region & Commanding Officer of "E" Division (British Columbia), RCMP

Organizational structure and composition

Over the last 25 years, Canadian law enforcement has fundamentally shifted how it approaches organized crime. Traditionally, organized crime was understood as being comprised of hierarchically structured groups that were ethnically, racially, or culturally homogeneous—for example, the 'Italian', 'Albanian', or 'Russian' Mafia—that tended to operate within a strict culture of rules and codes. Instead, more multi-ethnic criminal groups are detected by law enforcement today. The understanding that organized crime is primarily hierarchical and operates in an authoritarian, rule-bound fashion evolved as well. Many organized crime groups are loosely structured, competitive networks with fluid linkages between members and associates, with a diverse range of leadership structures.

Innovation in technology

Technology has evolved significantly in the last several decades, enabling organized crime to commit old crimes like theft and fraud in new ways and also undertake relatively new activities, such as hacking and 'spoofing' websites (a website intentionally misleading the actual person or organization it purports to represent). Similar to legitimate businesses, organized crime relies on email, Global Positioning Systems (GPS), cell phones, instant messaging, accessing large amounts of electronic data and transferring funds quickly and securely. Criminal groups have also created technological tools specifically for crime. For example, coordinated groups of cyber-criminals develop and sell crimeware for profit. Crimeware is a type of malicious software, like Trojan horses or viruses, specifically designed to steal confidential personal and financial information.

Criminal Markets

Prostitution, illicit drugs, illegal gambling, and the smuggling of contraband goods have existed for centuries and continue to be exploited by organized crime today. Jurisdictional differences in legislation or taxation also contribute to the emergence of criminal markets such as the smuggling of tobacco from lower- to higher-tax provinces.

New illicit markets can emerge from changes to regulations or with new policies. For example, Interpol warns that the United Nations-backed effort to reduce emissions from deforestation and degradation (REDD) will provide opportunities to criminal groups involved in fraud. REDD aims to offer billions of dollars to developing countries to conserve and restore their forests by allowing them to earn carbon credits that can be sold to developed countries that need the credits to meet greenhouse gas emission reduction targets. Fraudulent schemes could claim carbon credits for non-existent forests.

Supply and demand

The supply and demand of illicit goods and services fluctuates according to a variety of factors, including shifts in legislation, criminal justice interventions, and global socio-economic events. For example, the Taliban crackdown on opium poppy cultivation in Afghanistan in 2000-2001 resulted in a sharp reduction of global heroin production for that harvest season, although production levels have since recovered. The roles of different countries in illicit markets also evolve based on supply and demand. For example, Canada has been a consumer of synthetic drugs, like methamphetamine, for a long period of time with limited production facilities. However, based on opportunities, Canada recently became one of the most significant producers and exporters of ecstasy (and to a lesser extent methamphetamine) to the world illicit drug market.

There is public demand for unlawful goods, such as illicit drugs or counterfeit goods, or those who seek illicit services, like prostitution or illegal gambling. Public support for and patronage of illicit markets fluctuates as consumer preferences change. For example, the consumption of heroin in Canada has declined and is being partially replaced by the consumption of pharmaceutical opiates.

"Organized crime groups regularly cross community, regional and provincial borders while conducting their illicit activities. Law enforcement agencies must also cross traditional borders, sharing information and resources to create joint enforcement opportunities in the ongoing effort to combat organized crime."
Chief Delaney Chisholm, New Glasgow Police Service

Legislation

Legislation has also evolved in efforts to counter organized crime. In the 1980s and 90s, new regulations to address money laundering were adopted in Canada and dedicated anti-money laundering teams became operational. In 2000, new legislation strengthened Canada's anti-laundering efforts and introduced mandatory reporting for financial agencies. In 1997, anti-gang legislation was introduced to combat criminal organizations. In 2005, Canada created new offences regarding trafficking in persons intended to address organized crime that specialized in the recruitment, transportation and coercion of young women within Canada into the sex trade.

Integrated law enforcement efforts

Organized crime today transcends borders and crosses over into many law enforcement and government jurisdictions. No single organization involved in the fight against organized crime is able to tackle the activities of organized criminal groups on its own. Integrated intelligence units, response units, and combined enforcement units continue to play a vital role on local, regional, provincial-territorial, national and international levels. For example, Criminal Intelligence Service Canada (CISC) continues to align and strengthen its partnership with the Canadian Integrated Response to Organized Crime (CIROC) to ensure that strategic intelligence is shared with senior leaders who decide and formulate operations that bring criminals to justice. Joint investigations, integrated operations and information sharing practices will continue to become increasingly important to the future direction of anti-organized crime activities.

The Canadian Integrated Response to Organized Crime (CIROC) was created in June 2007 through a joint initiative of the Organized Crime Committee of the Canadian Association of Chiefs of Police and Criminal Intelligence Service Canada. It was established to coordinate organized crime perspectives and priorities nationally and to strengthen the link between intelligence and operations as a vital component to effective and efficient law enforcement.

"The overall impact of organized crime groups has been present within Newfoundland and Labrador for many years. The province has experienced new found prosperity in recent years and as a result has become even more inviting for of organized crime groups to expand and increase their markets and influence."

Assistant Commissioner W.A. (Bill) Smith, Commanding Officer of "B" Division (Newfoundland & Labrador), RCMP

ENABLING FACTORS

Illicit drugs, contraband and counterfeit goods, securities fraud and stock market manipulation are just a few wide-ranging examples of organized criminal activities that impact communities across Canada and around the world. In advancing these and other criminal activities, following are some methods and techniques organized crime groups employ to further their objectives.

Organized crime and legitimate business

Some criminal groups operate businesses that are primarily intended to facilitate criminal activities. Others offer legitimate trade but also facilitate illicit enterprise through, for example, trafficking drugs, smuggling contraband or laundering funds. Criminals may own or operate these businesses openly, conceal their dealings through nominees, or collude with, coerce, or deceive the owners or employees. Corruption or coercion can be used to situate members of the criminal group within legitimate business and then use the business for illicit purposes. Legitimate businesses can also enable criminal groups to distance themselves from criminal activities and provide an appearance of legitimacy.

Violence and intimidation

Criminal groups of all levels of sophistication may use violence to further their activities even though the reason for its use may be different. Violence can be used as an offensive or defensive tactic and it can be premeditated or spontaneous, publicly undertaken or carried out covertly. More sophisticated groups at times hire subordinate criminal groups or individuals to undertake violent acts on their behalf, while lower-level groups, such as some street gangs, have been known to engage directly in public displays of aggression and violence. Violence within organized crime groups is generally used to maintain internal discipline, while violence between criminal groups may occur when they compete over territory or a particular illicit commodity, or retaliate against rivals. This violence can be undertaken in public areas, posing a threat to innocent bystanders. When individuals outside of organized crime groups are targeted for violence or intimidation it is typically to further the interests of a criminal group, for example, the intimidation of witnesses. Extreme violence is likely to be counter-productive, as it attracts law enforcement and media attention, distracts the criminal group from profit-oriented activities, and may result in members being arrested or killed.

Technology

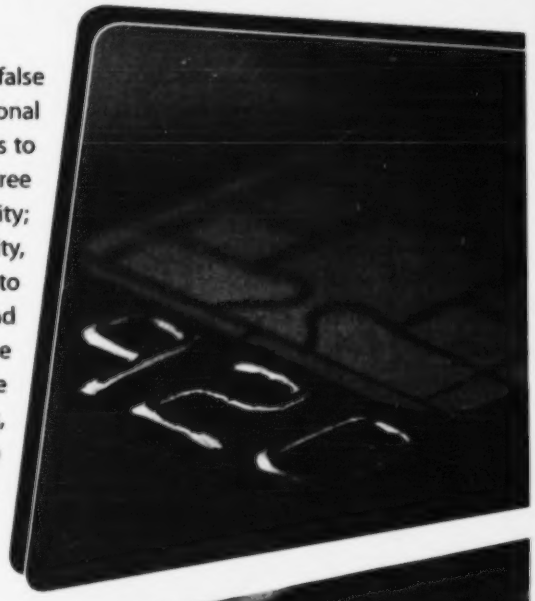
Organized crime groups use technology to communicate securely, conceal their activities, target victims, and locate skilled labour and valuable goods, such as large caches of stolen personal and commercial data. Compromised corporate or government databanks can be sold directly to organized crime groups or to individuals who act as data brokers and aggregate data from diverse sources and then sell it on the black market.

Some organized criminal networks are exclusively virtual with illicit activities and communications occurring entirely online. Members rarely meet in person and individuals may be known by their online alias or nickname. 'E-criminals' will become more sophisticated, for example, the use of more advanced 'malware' and 'botnets' *(networks of compromised internet-connected computers)* will allow them to steal more private data and effectively conceal their activity. These individuals will continue to adapt to law enforcement techniques and software security defenses and will also contract hackers to locate or exploit computer software vulnerabilities. Flaws that can be used to intercept data illicitly or compromise systems will be exploited by criminal groups to facilitate cyber-attacks for profit.

"The Canadian Forces Military Police is well aware of the threat posed by organized crime groups and of its potential consequences on operations of the Canadian Forces and our military families. The Military Police Criminal Intelligence Program, in partnership with other law enforcement agencies, continuously analyzes the environment and provides assessment as to the impact on the Canadian Forces." Colonel T.D. Grubb, Canadian Forces Provost Marshal

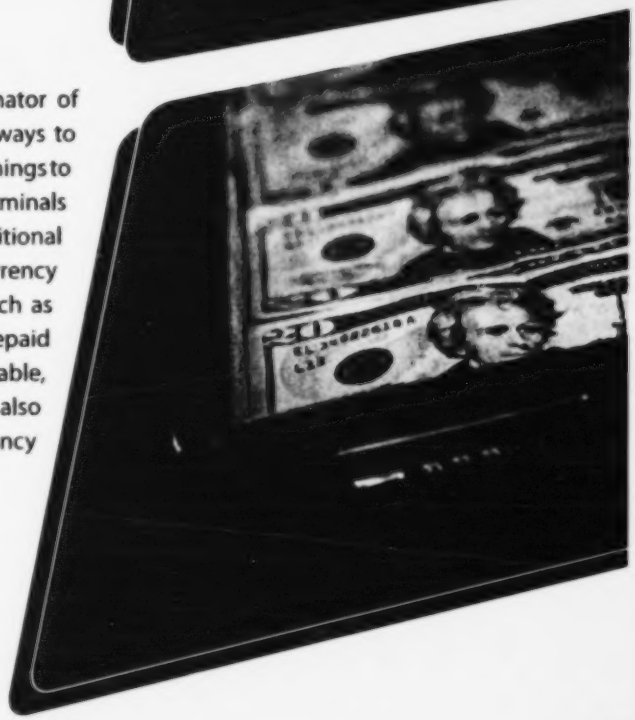
Identity Fraud

Organized crime groups are known to produce, supply or use false identities. The increased availability and ease of access to personal information and business records online makes it easier for criminals to steal information and use it fraudulently. Organized crime uses three main methods: modification of some aspect of their own identity; creation of a wholly fictitious identity; or theft of someone else's identity, either living or dead. These false identities assist organized criminals to avoid detection by law enforcement, particularly when traveling and to protect their assets from confiscation. Individuals also use false identification to carry out or enable criminal activity where evidence of an identity is a key requirement, such as fraud, financial crimes, or people smuggling. Other forms of misrepresentation may also be used, such as false information on company or vehicle identity, consignments, business accounts and transactions.



Money laundering

The generation of illicit wealth is the common denominator of all organized criminal activities and there are numerous ways to launder money. Less-profitable criminal groups use their earnings to support their members' lifestyles while more-prosperous criminals use a variety of techniques to launder illicit funds. Traditional methods involve the use of nominees, front companies, currency exchanges, casinos, and cash-rich legitimate business (such as bars and restaurants). Newer avenues include the use of prepaid cards, also called 'stored-value' cards, that are portable, valuable, exchangeable and anonymous. Organized crime may also launder money using precious metals through digital currency exchange services, which are not tied to banks.



STREET GANGS IN CANADA

This spotlight provides some background and insight into street gangs and serves to position the topic within the overall context of organized crime. Some distinguishing characteristics are examined as well as the capabilities and range of activities of these criminal groups. It is clear that a better understanding of street gangs increases the potential of identifying the harm and threat these criminal groups represent and aids in the development of anti-gang strategies. This analysis also supports law enforcement agencies in developing initiatives and conducting investigations according to conditions and circumstances that are unique to each province and region.

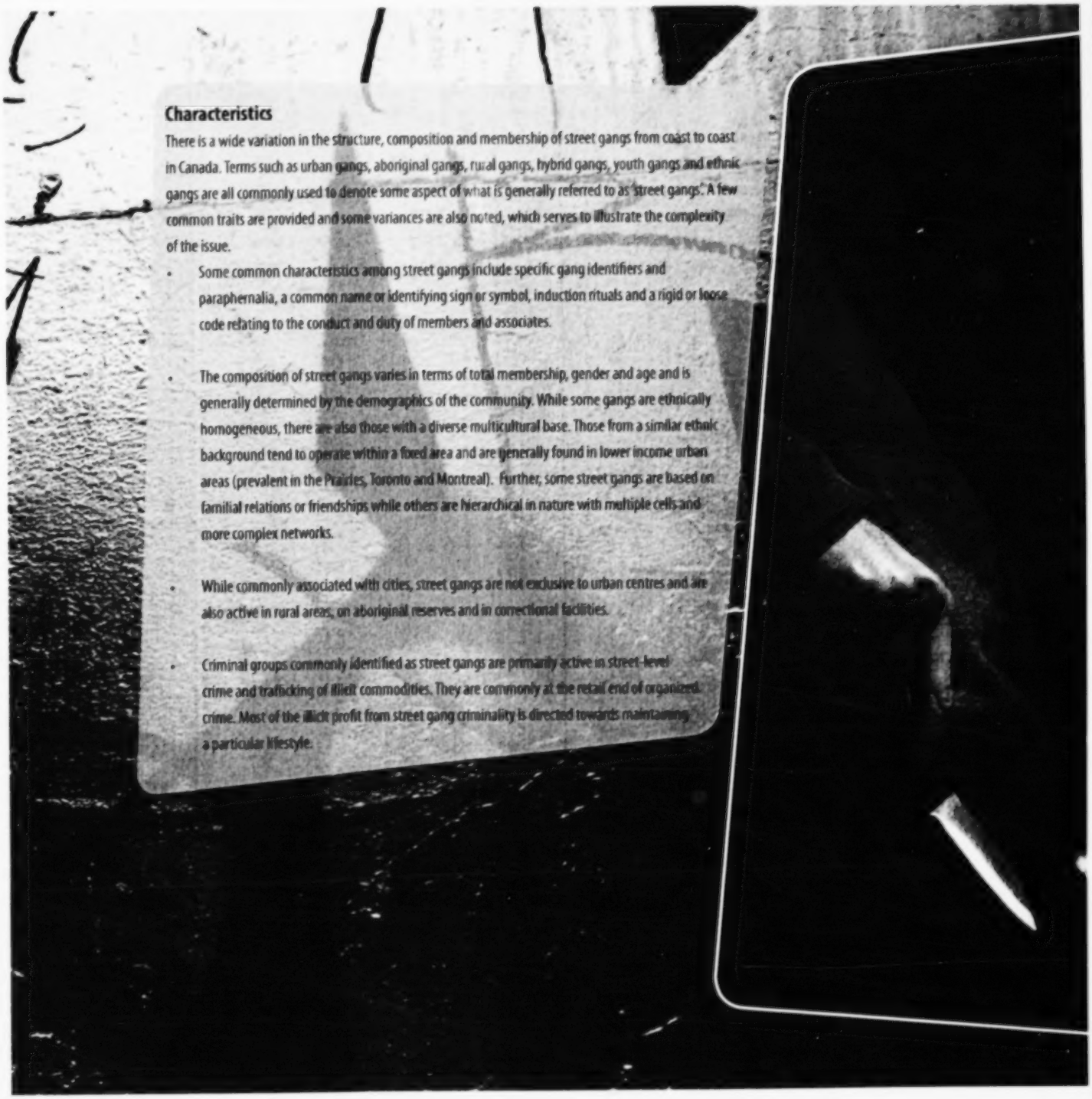
How big is the problem and what is the threat?

Since 2006 there has been an increase in the number of street gangs identified by law enforcement agencies across Canada. This increase may be due to new gangs forming but it may also be attributable to a combination of other factors. Some of these include higher-level organized crime groups being identified as street gangs, cells from larger gangs being identified as new entities, street gangs splintering into smaller criminal groups, or gangs changing names.

There has been extensive media coverage over the past number of years relating to the topic of street gangs, specifically shootings and the use of violence in public settings. Gang-related violence is often attributed to street gang expansion or territorial conflict and can also be opportunistic and appear to be spontaneous. The degree of violence and intimidation varies by region and gang. These acts of public violence are of significant concern for law enforcement, the government and especially for the communities that are directly affected.

"In the last few years, a rigorous analysis of the evolution of street gangs has made it possible for us to more effectively target initiatives that address both repression and prevention."

Yvan Delorme, Director, Service de police de la Ville de Montréal



Characteristics

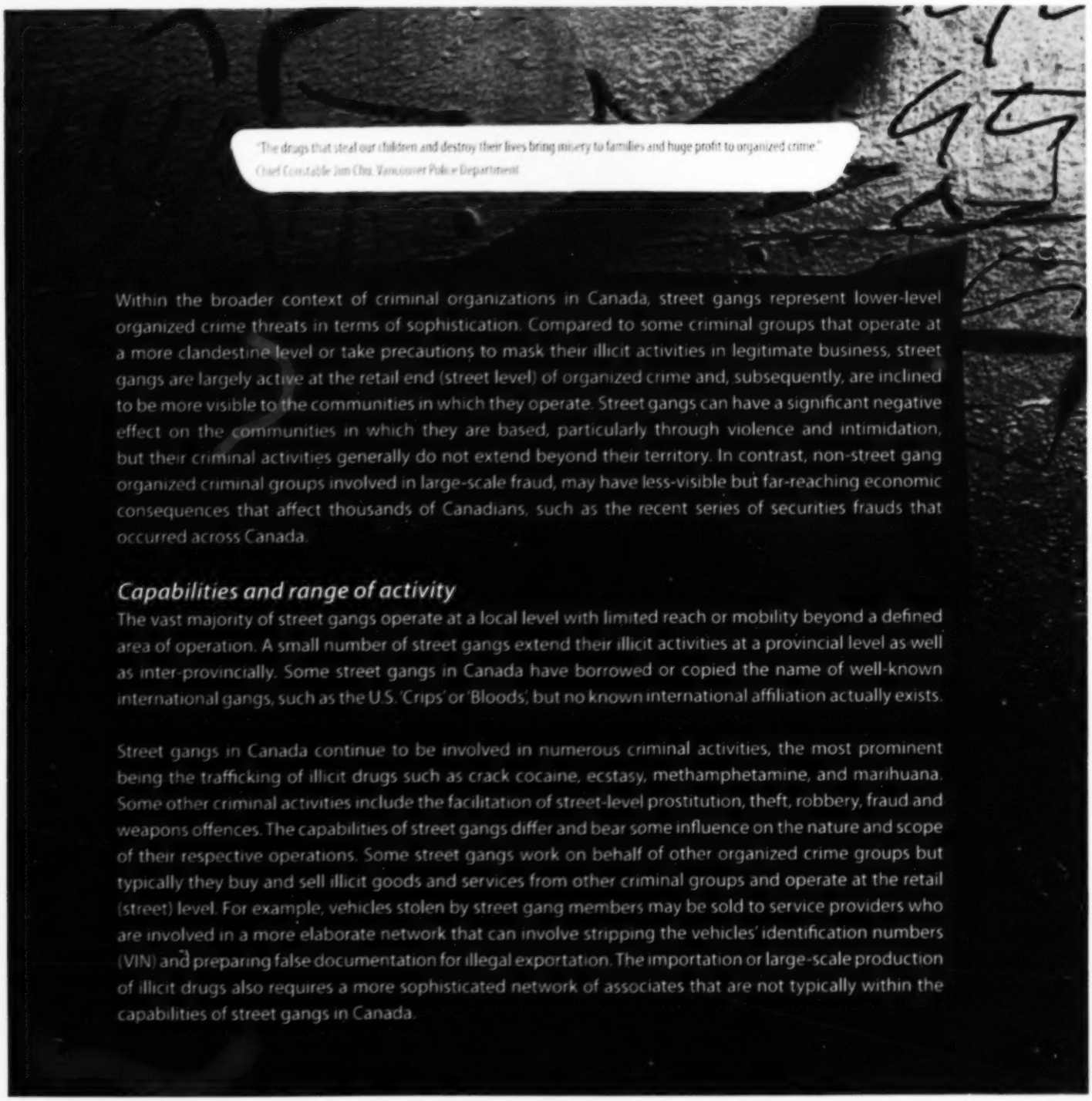
There is a wide variation in the structure, composition and membership of street gangs from coast to coast in Canada. Terms such as urban gangs, aboriginal gangs, rural gangs, hybrid gangs, youth gangs and ethnic gangs are all commonly used to denote some aspect of what is generally referred to as 'street gangs'. A few common traits are provided and some variances are also noted, which serves to illustrate the complexity of the issue.

- Some common characteristics among street gangs include specific gang identifiers and paraphernalia, a common name or identifying sign or symbol, induction rituals and a rigid or loose code relating to the conduct and duty of members and associates.

- The composition of street gangs varies in terms of total membership, gender and age and is generally determined by the demographics of the community. While some gangs are ethnically homogeneous, there are also those with a diverse multicultural base. Those from a similar ethnic background tend to operate within a fixed area and are generally found in lower income urban areas (prevalent in the Prairies, Toronto and Montreal). Further, some street gangs are based on familial relations or friendships while others are hierarchical in nature with multiple cells and more complex networks.

- While commonly associated with cities, street gangs are not exclusive to urban centres and are also active in rural areas, on aboriginal reserves and in correctional facilities.

- Criminal groups commonly identified as street gangs are primarily active in street-level crime and trafficking of illicit commodities. They are commonly at the retail end of organized crime. Most of the illicit profit from street gang criminality is directed towards maintaining a particular lifestyle.

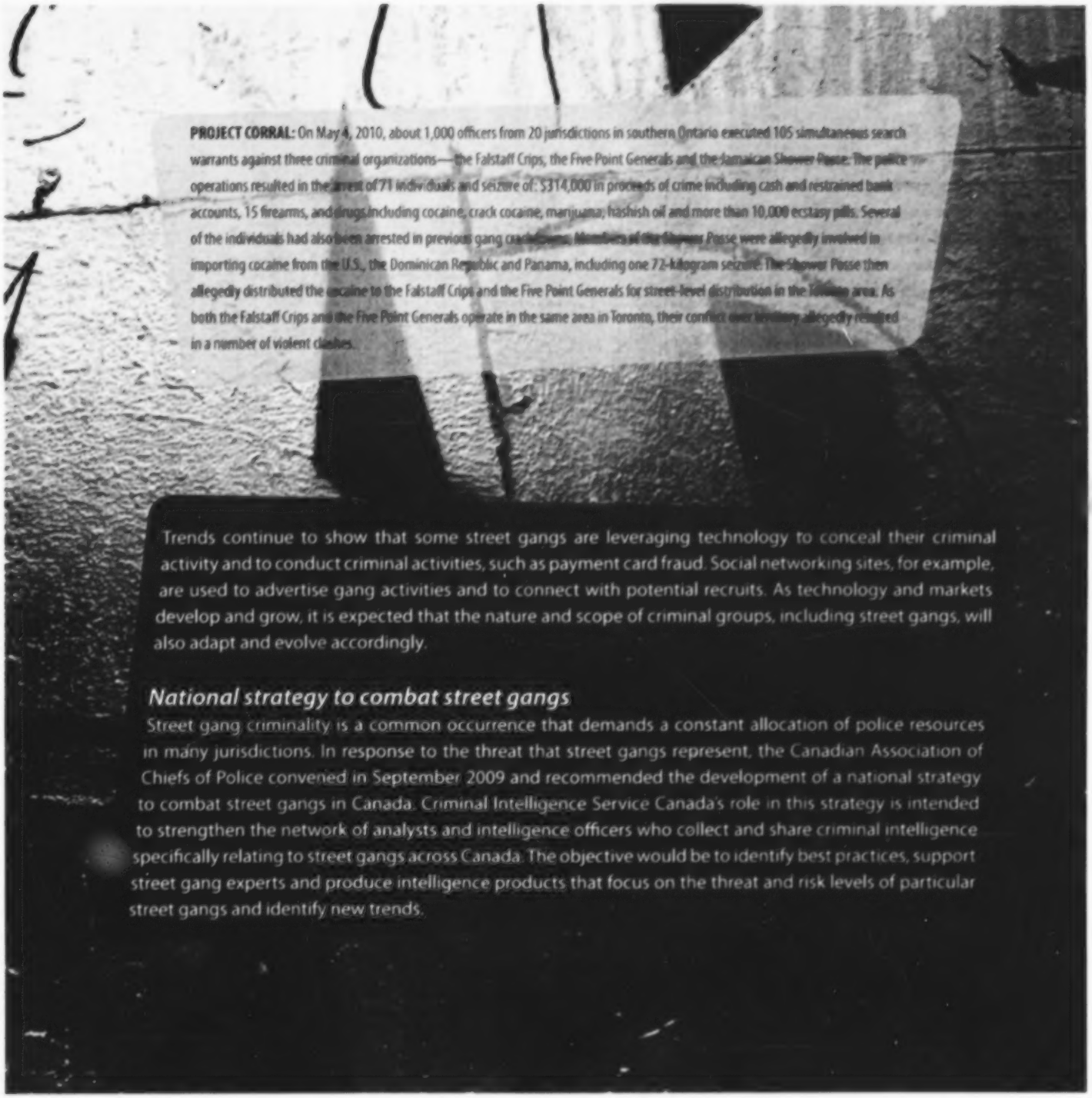

"The drugs that steal our children and destroy their lives bring misery to families and huge profit to organized crime."
Chief Constable Jim Chu, Vancouver Police Department

Within the broader context of criminal organizations in Canada, street gangs represent lower-level organized crime threats in terms of sophistication. Compared to some criminal groups that operate at a more clandestine level or take precautions to mask their illicit activities in legitimate business, street gangs are largely active at the retail end (street level) of organized crime and, subsequently, are inclined to be more visible to the communities in which they operate. Street gangs can have a significant negative effect on the communities in which they are based, particularly through violence and intimidation, but their criminal activities generally do not extend beyond their territory. In contrast, non-street gang organized criminal groups involved in large-scale fraud, may have less-visible but far-reaching economic consequences that affect thousands of Canadians, such as the recent series of securities frauds that occurred across Canada.

Capabilities and range of activity

The vast majority of street gangs operate at a local level with limited reach or mobility beyond a defined area of operation. A small number of street gangs extend their illicit activities at a provincial level as well as inter-provincially. Some street gangs in Canada have borrowed or copied the name of well-known international gangs, such as the U.S. 'Crips' or 'Bloods', but no known international affiliation actually exists.

Street gangs in Canada continue to be involved in numerous criminal activities, the most prominent being the trafficking of illicit drugs such as crack cocaine, ecstasy, methamphetamine, and marihuana. Some other criminal activities include the facilitation of street-level prostitution, theft, robbery, fraud and weapons offences. The capabilities of street gangs differ and bear some influence on the nature and scope of their respective operations. Some street gangs work on behalf of other organized crime groups but typically they buy and sell illicit goods and services from other criminal groups and operate at the retail (street) level. For example, vehicles stolen by street gang members may be sold to service providers who are involved in a more elaborate network that can involve stripping the vehicles' identification numbers (VIN) and preparing false documentation for illegal exportation. The importation or large-scale production of illicit drugs also requires a more sophisticated network of associates that are not typically within the capabilities of street gangs in Canada.


PROJECT CORRAL: On May 4, 2010, about 1,000 officers from 20 jurisdictions in southern Ontario executed 105 simultaneous search warrants against three criminal organizations—the Falstaff Crips, the Five Point Generals and the Jamaican Shower Posse. The police operations resulted in the arrest of 71 individuals and seizure of: $314,000 in proceeds of crime including cash and restrained bank accounts, 15 firearms, and drugs including cocaine, crack cocaine, marijuana, hashish oil and more than 10,000 ecstasy pills. Several of the individuals had also been arrested in previous gang crackdowns. Members of the Shower Posse were allegedly involved in importing cocaine from the U.S., the Dominican Republic and Panama, including one 72-kilogram seizure. The Shower Posse then allegedly distributed the cocaine to the Falstaff Crips and the Five Point Generals for street-level distribution in the Toronto area. As both the Falstaff Crips and the Five Point Generals operate in the same area in Toronto, their conflict over territory allegedly resulted in a number of violent clashes.

Trends continue to show that some street gangs are leveraging technology to conceal their criminal activity and to conduct criminal activities, such as payment card fraud. Social networking sites, for example, are used to advertise gang activities and to connect with potential recruits. As technology and markets develop and grow, it is expected that the nature and scope of criminal groups, including street gangs, will also adapt and evolve accordingly.

National strategy to combat street gangs

Street gang criminality is a common occurrence that demands a constant allocation of police resources in many jurisdictions. In response to the threat that street gangs represent, the Canadian Association of Chiefs of Police convened in September 2009 and recommended the development of a national strategy to combat street gangs in Canada. Criminal Intelligence Service Canada's role in this strategy is intended to strengthen the network of analysts and intelligence officers who collect and share criminal intelligence specifically relating to street gangs across Canada. The objective would be to identify best practices, support street gang experts and produce intelligence products that focus on the threat and risk levels of particular street gangs and identify new trends.

NATIONAL OVERVIEW OF CRIMINAL MARKETS

Criminal Intelligence Service Canada examines organized crime in terms of the dynamics within criminal markets. This approach assists senior law enforcement in making informed decisions regarding the scope of criminal markets, existing crime patterns and anticipated criminal trends. This section is intended to provide a general overview of some of the criminal markets that impact Canada.

KEY FINDINGS

There is not a single dominant organized crime group across Canada. Rather, there continues to be a number of significant criminal organizations often operating out of major criminal hubs, such as the B.C. lower mainland, greater Toronto area, and greater Montreal region that influence criminal activities in other regions.

The total number of reported groups in Canada has fluctuated between approximately 600, to well over 900 within the past five years. This fluctuation is largely reflective of improved reporting processes and a shift in collecting information on organized crime in Canada. Since 2005, the concept of organized crime within law enforcement has broadened to include, not only tightly knit groups comprised of individuals with familial, ethno-geographic or cultural ties, but also more loosely associated, ethnically diverse, integrated criminal networks.

CRIMINAL MARKETS

Counterfeit Goods

A wide range of counterfeit products, of varying quality, have infiltrated the legitimate Canadian marketplace, in many cases without the awareness of the supplier or consumer. Counterfeit goods in Canada are smuggled in from the United States and from Asian countries, particularly China, although other major production sites are also located in Thailand, Turkey and Russia. Organized crime groups will continue to capitalize on opportunities to expand the availability of counterfeit goods via the Internet through fraudulent online stores, unregulated e-pharmacies and loosely monitored auction and classified ad sites.

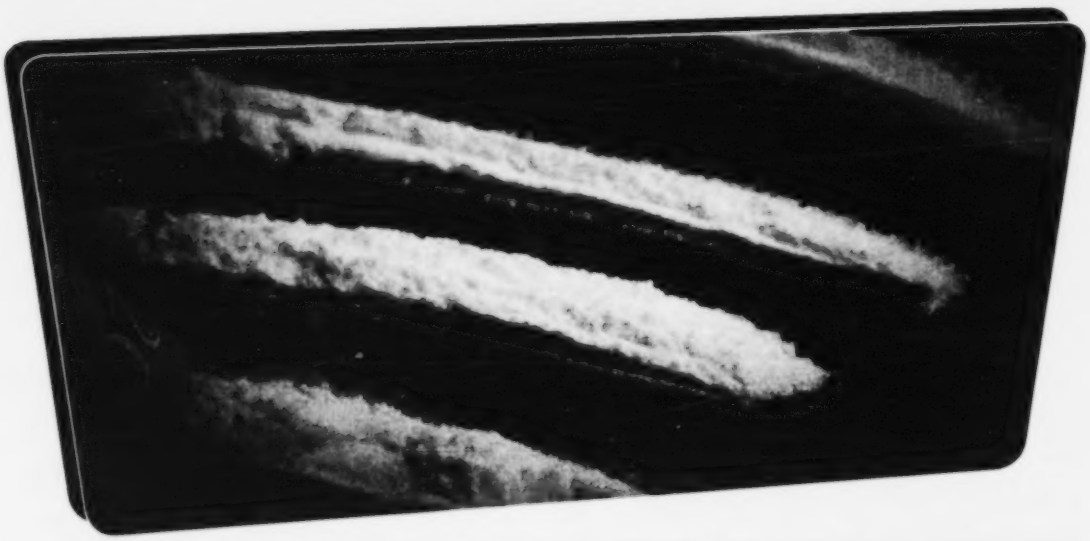
"The consumption and use of counterfeit goods, such as prescription drugs and other products, puts public health at serious risk." Assistant Commissioner Line Carbonneau, Commanding Officer of "C" Division (Quebec), RCMP

Illicit Drugs

Cocaine

Cocaine remains one of the most significant illicit drug markets as indicated by global production levels and Canadian seizure statistics. Inter-provincial distribution of cocaine is most often coordinated from B.C., Ontario, and Quebec, where it is imported and sold at the wholesale level to criminal groups that subsequently sell it to retail distributors. The U.S. is the primary transit country for cocaine entering Canada where it is typically smuggled through highway ports of entry concealed in commercial and personal vehicles. A common method for smuggling cocaine into Canada from the U.S. is secret compartments built into the refrigeration units of commercial vehicles. Crack cocaine, a smokeable form of cocaine, remains relatively concentrated in urban centres across Canada. Due to its addictive nature and short-lived effects, users frequently engage in low-level property crimes, robbery and crimes against persons, often creating pockets of cyclical crime. Street gangs are primarily involved in retail-level distribution of crack cocaine, mainly from street corners, crack houses, as well as dial-a-dope systems.

Dial-a-dope refers to a system used by street level retailers to sell illicit drugs by responding to requests placed to a series of disposable cellular phones.



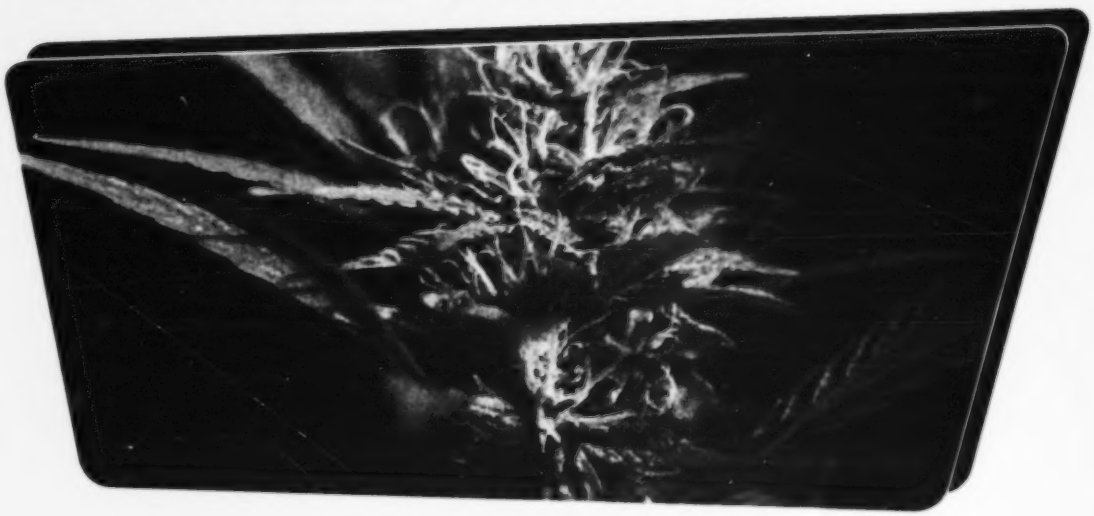
"The cross-border smuggling of people and contraband, particularly illicit drugs, tobacco and firearms, profits and supports organized crime in Canada. The Canada Border Services Agency (CBSA) is committed to disrupting these criminal activities by intercepting illegal cross border movements that threaten the safety and security of Canada."
Geoff Leckey, Director General of the Intelligence Directorate, Canada Border Services Agency

Heroin

In Canada, the heroin market continues to be one of the smallest illicit drug markets in comparison to the demand for other illicit drugs. The heroin market has been partially replaced by the use of pharmaceutical opiates, particularly in Ontario and Atlantic Canada. A limited number of organized crime groups, mainly in B.C. and Ontario, are involved in importing heroin primarily from Southwest Asia and Latin America. Heroin enters Canada primarily through marine and air ports concealed either within commercial cargo or carried by individuals within their baggage or on their person.

Marihuana

Marihuana remains one of the most trafficked illicit drugs in Canada, with extensive organized crime involvement at all levels of production, distribution, importation, and exportation. The domestic market for cannabis is almost entirely supplied by Canadian-produced marihuana. The drug is moved inter-provincially from three main production hubs in B.C., Ontario, and Quebec to meet domestic demand and to transport large quantities of marihuana to areas along the Canada-U.S. border for smuggling into American markets. Most exported Canadian marihuana is destined for the United States; however, it only accounts for a small percentage of total marihuana imported in the U.S. Criminals smuggle Canadian-produced marihuana into the U.S. in exchange for cocaine, firearms, and contraband tobacco. Recently, U.S. law enforcement has seen a decline in the number of marihuana seizures along the Canada-U.S. border. This can be attributed to many factors, including the movement of some Canadian organized crime group grow operations onto U.S. soil to avoid border detection.



Methamphetamine

Domestic use of methamphetamine has stabilized; however, production has risen to meet expanding international market demands. 'Super labs,' capable of producing large amounts of methamphetamine, cater to international wholesale distributors with export to countries including Australia and New Zealand. Methamphetamine continues to be used in Canadian-produced ecstasy as it is cheaper to produce and increases the profit margin. Canada remains a transit country for the precursor chemicals used to produce methamphetamine with Canadian-sourced pseudoephedrine discovered in some clandestine U.S. methamphetamine labs.

Ecstasy

Ecstasy is one of the primary illicit drug markets in Canada. Canada continues to export significant quantities to the U.S. and to a lesser extent, also supplies Japan, Australia and New Zealand. Precursor chemicals for the production of ecstasy are smuggled into Canada from source countries such as China and India on a regular basis. The chemical profile of ecstasy has shifted towards a cocktail composition that contains decreased quantities of MDMA, its primary active ingredient, and increased quantities of several chemical fillers and substances, predominantly methamphetamine, as well as ketamine, ephedrine and caffeine. The shortage of MDMA precursor chemicals presently affecting Europe is not currently affecting the illicit manufacture of ecstasy in Canada.

> "We see all too often the effects that illicit substances have on our youth and others. Not just in terms of health and addiction issues, but also in increases to such areas as property crime as people try and raise monies to assist with purchases and to offset debt." Chief Paul Smith, Charlottetown Police Services

Illicit Distribution of Pharmaceuticals

Canadians are among the heaviest consumers of pharmaceutical opiates globally. However, the illicit pharmaceutical opiates market in Canada remains small in comparison to organized crime involvement in the other illicit drug markets. Pharmaceuticals are obtained illicitly through armed robberies, customer theft, employee pilferage, transit losses, theft of prescription pads, illegal Internet pharmacies, and the diversion of pharmaceuticals from domestic distribution channels. Pharmaceuticals commonly trafficked in Canada are: Valium, Klonopin, Ativan (all three are sedatives), Ritalin (stimulant), Talwin (painkiller), OxyContin, and steroids are also commonly trafficked. In many communities across Canada, heroin is being replaced with prescription drugs such as Oxycodone (e.g. OxyContin) and Hydromorphone (e.g. Dilaudid). In 2009, counterfeit Vicodin and OxyContin pills were seized in Canada. Neither pills contained

their proper medicinal ingredients: the Vicodin contained small amounts of heroin, caffeine and Diazepam (benzodiazepine) while the OxyContin contained heroin and Tramadol (opiate analgesic). The unpredictable content, purity level and interactions of the chemicals in these counterfeit pills pose a risk to unsuspecting consumers.

Illicit Firearms

Many organized crime groups do not regularly use firearm-related violence but instead use it periodically to deter real or perceived rivals, for intra-group discipline, and to intimidate. The illicit drug market stimulates demand for illicit firearms as it is highly competitive, extremely profitable and fertile ground for violent disagreements between and within criminal organizations. The U.S. remains the primary foreign supplier of smuggled firearms in Canada with a strong regional link between the firearm's source in U.S.-border states and the provincial destination. Domestically sourced firearms are mainly obtained from residential and, to a lesser extent, commercial thefts. Some groups are involved in smuggling and trafficking but it is generally not a primary activity. The Internet is increasingly appealing to criminals as an alternate means of obtaining illicit firearms and avoiding law enforcement.

"The goal is to shut down firearms traffickers and reduce the flow of illegal weapons being made available to dangerous criminals in Ontario. Our communities are safer when we remove another link in the chain of gun smuggling and trafficking networks." Deputy Commissioner Vince Hawkes, Ontario Provincial Police, and Co-Chair of the Canadian Integrated Response to Organized Crime

Mortgage Fraud

Mortgage fraud is commonly defined as the deliberate use of mis-statements, misrepresentations or omissions to fund, purchase or secure a loan. Simply put, mortgage fraud is any scheme designed to obtain mortgage financing under false pretenses, such as using fraudulent or stolen identification or falsifying income statements.

Mortgage frauds commonly involve the cooperation of mortgage industry insiders, such as vendors, real estate agents, mortgage brokers, lawyers, credit agency employees, lenders and title insurers. These insiders may, for example, knowingly or unknowingly accept the use of false personal or financial information, use inaccurate appraisals, or transfer mortgage funds to an individual knowing they will be misused. Some criminal groups recruit (or coerce) new Canadians to act as nominees on fraudulent mortgage applications, some of whom are left financially responsible for the mortgage.

Massive Fraud in Calgary

A recent alleged mortgage scheme in Alberta illustrates the scope, sophistication and profitability of such frauds. Court documents filed by a financial institution allege that about 100 individuals generated at least $140 million, about $70 million of which was for phony mortgages, with expected losses after foreclosures of $30 million. The financial institution named 14 groups in its civil lawsuit and the individuals named in the lawsuit are bank employees, lawyers, mortgage specialists, real estate agents, and a federal politician. Funds were allegedly channeled to Lebanon, India, Saudi Arabia and the United Arab Emirates. The RCMP and Calgary police announced that a joint criminal investigation will be conducted and that it will take a considerable period of time to undertake hundreds of interviews and examine thousands of documents collected by the financial institution.

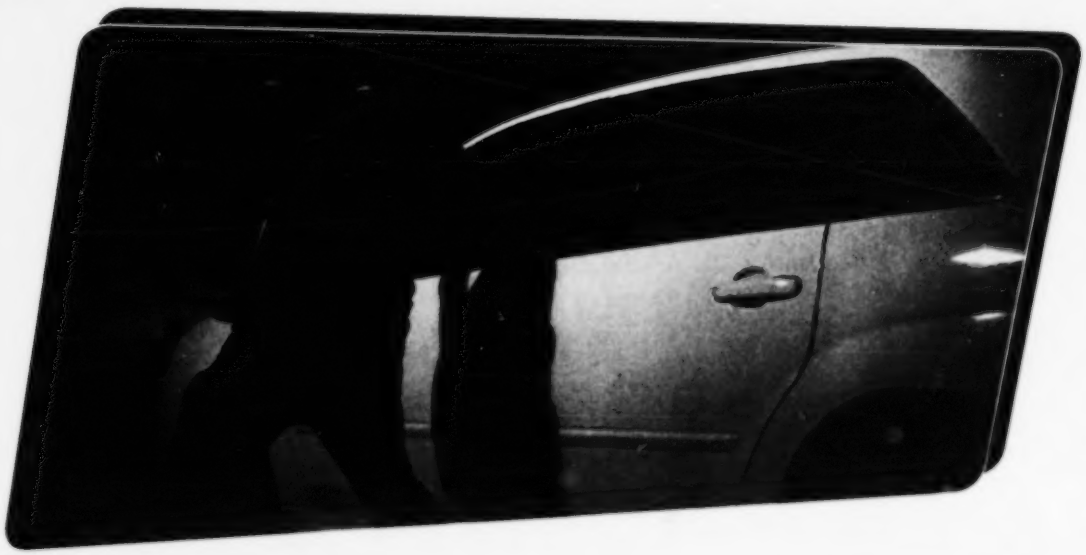
"Cooperation between all levels of government, private sector enterprise, the community and law enforcement is absolutely critical to Canada's response to organized crime." Chief Tom Kaye, Owen Sound Police Service, and Chair of Criminal Intelligence Service Ontario Governing Body

Payment card fraud

In 2009, combined losses due to payment card fraud decreased slightly from $512.2 million in 2008 to $500.7 million, a likely reflection of enhanced prevention and detection efforts. While credit card fraud decreased, losses due to debit card fraud spiked in 2009, increasing by 36% from $104.5 million in 2008 to $142.3 million. Organized crime involvement in payment card fraud can involve card thefts, fraudulent card applications, fake deposits, skimming, counterfeiting or card-not-present fraud. Wireless technology, such as Bluetooth, enables the illicit extraction and transmission of payment card information that is then relayed to card manufacturing factories which can be located worldwide. The transition to micro-chipped payment cards is underway in Canada; however, a complete transition will take several more years. Complete implementation is expected to reduce the amount of skimming and counterfeiting activity within Canada at point-of-sale terminals and ATMs. However, this reduction will be offset by a displacement of payment card fraud using Canadian card data to locations that have not implemented chip and pin, such as the U.S., and to card-not-present fraud, which is not impacted by the new technology. Card-not-present transactions occur through the mail, telephone, fax or the Internet.

Vehicle Theft

The number of vehicles stolen across Canada has been decreasing since 2006; however, the proportion of unrecovered vehicles has increased from 30% to 40%, which suggests to law enforcement a possible increase of organized crime theft. Unrecovered vehicles may indicate that these cars are being trafficked.



Because the process of trafficking vehicles typically requires the involvement of a group of criminals, the rate of unrecovered vehicles is used as a proxy measure by law enforcement to indicate organized crime theft. Activities of criminal groups involved in vehicle-related frauds include staged collisions, insurance write-offs and the sale of damaged vehicles, the manipulation of vehicle tracking systems and computerized ignition connectors that allow for keyless operation. Approximately 20,000 stolen vehicles a year are illegally exported from Canada, most commonly through the ports of Vancouver, Halifax and Montreal. Common methods for exporting stolen vehicles include falsifying export documentation, providing false vehicle identification numbers (VINs), and using those from salvaged vehicles to replace the VIN of stolen vehicles.

Heavy Equipment Theft

Since 2007, the theft of heavy equipment in Canada has been increasing and the recovery rates are declining. Common types of heavy equipment that are stolen include farm machinery (e.g., tractors), construction equipment (e.g., excavators, forklifts, etc.), and other heavy equipment (e.g., tractor trailers, generators, compressors, etc.). The product identification number is modified and the equipment is generally smuggled out of Ontario and Quebec. The stolen equipment often ends up shipped to a different part of Canada from where it was stolen or is exported to East Africa, South America, Mexico, Caribbean, Lebanon, United Arab Emirates, and the U.S.

GLOBAL TRENDS

- ***Rapidly growing economies*** such as China and India will continue to grow their middle classes as industry and commerce expand. Organized crime will continue to flourish in these environments as well as legitimize their proceeds and industries. There is the potential of undermining the political mechanisms of such countries through corruption and manipulation of the economy.
- ***The counterfeit food industry*** is worth an estimated $49 billion a year and the demand for inexpensive food virtually guarantees that the problem will persist and grow. In 2008, Chinese officials reported that milk adulterated with melamine (a chemical that makes the milk appear to have a higher protein content) caused 900 infants to be hospitalized for kidney problems, six of whom died.
- ***The European Union Emission Trading Scheme*** (EU ETS) is the largest multi-national greenhouse trading system in the world. Companies in Europe that produce emissions like carbon dioxide are given an allowance to emit without penalty. If a company exceeds its limit it must buy emission credits from companies that produce less than their limit. The European Union carbon market is worth approximately CDN$140 billion. Europol reports that from October 2008 to December 2009 an estimated CDN$7 billion was defrauded from the EU ETS by organized crime groups. Similar to the European scheme, the Western Climate Initiative (WCI) is scheduled to take place in 2012 in North America.
- ***Smartphones*** are becoming more and more common in everyday life and their use has expanded with the ability to manage finances and contain records of all types of personal information. In Japan they have essentially become the new wallet, allowing users to buy food, drink and transit fare, among other things. Many of these utilities are just now becoming available to Canadians and may become targets of criminals interested in stealing information and money.
- ***Cloud computing*** refers to software and resources that are accessible on the Internet and that were previously stored on company and individual computers. This method of accessing Information Technology (IT) services is expanding and being spearheaded by companies such as Google (for example, Google Docs allows users to store documents online and access them from any computer). It provides companies and individuals with an inexpensive, up-to-date and rapid means of using IT services. Although cloud computing is not a new innovation, businesses are increasingly adopting it to serve their IT needs. This may provide organized crime with the opportunity to acquire all manners of personal and business information from centralized locations rather than from millions of individual computers.

"Organized crime is not something that only impacts big cities. We have seen examples in rural New Brunswick where organized crime and the influence of organized crime has caused considerable harm to our communities. When we are effective at addressing these threats, there is an immediate impact on the quality of life of our citizens."
Assistant Commissioner Wayne A. Lang, Commanding Officer of "J" Division (New Brunswick), RCMP

FEATURE FOCUS: SECURITIES FRAUD

"The true measure of our own success is and always will be our ability to add to the effectiveness of those who are investigating serious crimes. It is incumbent upon us, therefore, to recognize and seize opportunities to help our partners succeed." FINTRAC 2009 Annual Report, Jeanne M. Flemming, Director, FINTRAC

In 2007, 91% of Canadians agreed that "the impact of investment fraud can be just as serious as the impact of crimes like robbery and assault."
— 2007 CSA Investor Study: Understanding the Social Impact of Investment Fraud

Securities fraud (also known as stock-market fraud or investment fraud) can be described as the intentional misrepresentation of the monetary value or anticipated returns of a security in order to illegally achieve financial gain. Simply put, it consists of deceptive practices in the stock and commodity markets.

Securities are formal, legal documents which set out rights and obligations of buyers and sellers, and which come in the form of any one of a number of financial instruments. These financial instruments can include: fixed-income securities, such as bonds, debentures, mortgages, treasury bills and commercial paper; equities, such as stocks or shares; investment funds, such as mutual funds; derivatives, such as options and futures; and, hybrid products, such as income trusts and exchange-traded funds.

After a series of high-profile investment frauds in Canada and the United States that involved scores of investors, and because of investors' fears about shrinking pensions, securities fraud is an issue that continues to generate a significant amount of public concern. Many securities fraud schemes are regional or transnational in scope and frequently target hundreds or even thousands of investors from multiple countries. Given the level of sophistication and insider knowledge often required to conduct these frauds, they pose significant financial threats. This Feature Focus is intended to highlight the types of securities frauds that occur in Canada and to give an overview of fraud trends. As Canadian investors have $700 billion in pooled collective investment vehicles like mutual funds, public awareness of investor frauds is critically important.

This year, CISC incorporates valuable information about Canadians' knowledge about investments and experience with investment fraud from the Canadian Securities Administrators' (CSA) Investor Index Study 2009. This 2009 survey builds upon previous surveys undertaken in 2006 and 2007, thus allowing year-over-year comparisons. The full 2009 survey is available at www.securities-administrators.ca.

Organized frauds that occur in the corporate world are typically defined as white-collar crime, not organized crime. However, the demarcation line between these types of criminality is unclear. Those involved in securities fraud may not be members of known criminal groups. Instead, they may constitute loose networks of opportunistic and criminally inclined individuals, some of whom are former or current financial professionals.

The stock market is highly attractive to organized crime as it can be used to launder money and conduct illicit market manipulation. Complex securities schemes often require large amounts of capital to initiate trading and, thus, are typically restricted to more well-established, sophisticated and financially adept criminal groups. Schemes that target the senior exchanges (e.g., the Toronto Stock Exchange) are generally limited in number. In Canada, organized crime groups that are involved in securities fraud are primarily illicit groups with high-level criminal capabilities that are based in urban financial centres in B.C., Ontario and Quebec.

Given the specialized skills generally required to undertake securities fraud, organized crime relies upon corrupting or coercing financial professionals to orchestrate successful securities frauds, including lawyers, brokers, transfer agents, fund managers, accountants and promoters. In some instances, providers of this assistance may be unaware of their exploitation by organized crime. Others, lured by the profitability of their relationship, either may suspect but remain silent or knowingly and openly participate. While these individuals may be recruited from a wide range of professions, they represent only a small percentage of their peers. Nominees are used and multiple trusts are set up in layers to provide insulation for the originators and to give the appearance of legitimacy to public companies. In some cases, reputable public and business officials (who are often unwitting) are used to add clout to the board of directors, thereby enhancing the credibility of the company.

Organized crime uses the capital markets, both through legitimate investment ventures and fraudulent investment schemes, to launder their proceeds of crime. It can be difficult for law enforcement to distinguish between fraud as a substantive offence and money laundering, as the two often occur simultaneously. Organized crime groups can use illicit funds acquired from illicit activities, such as drug trafficking or frauds, to purchase legitimate, publicly listed stocks.

Market manipulation, particularly pump-and-dump schemes, is one of the most common forms of securities fraud. In a typical pump-and-dump, low-priced stocks owned by scam artists are promoted with falsified information to lure unsuspecting investors into purchasing shares, thereby artificially inflating the stocks' value. When the price peaks, the fraudsters sell their shares causing their value to plummet, leaving the victims holding worthless stocks.

High-yield investment schemes fraudulently promise high-yield, low-risk investment opportunities. These types of schemes require less expertise than other forms of securities fraud and typically involve affinity fraud (exploitation of particular social or cultural ties), online promotions or boiler rooms using high-pressure sales tactics. Boiler rooms use salespeople to call unsuspecting individuals and push investment opportunities involving often worthless or non-existent securities.

Tax avoidance investment schemes involve offers to invest in a domestic or offshore market that are fraudulently touted as being high-return, tax-free investment opportunities. In addition to causing the loss of invested money, investors can be left owing the government back-taxes, interest and penalties.

Brokerage account hijacking occurs when online brokerage accounts are hacked and liquidated to buy shares of stocks for pump-and-dump schemes. Account log-in credentials are stolen via phishing attacks (fraudulent emails disguised as originating from legitimate companies), botnets (networks of hijacked computers) or keystroke-logger programs. These programs send keystroke information to the attacker who uses the data to extract information about bank accounts or trading sites. The stolen information is then sold in online criminal forums.

The use of nominees, corrupt financial professionals and layered transactions conceal the financial trail. 'Cleansed' shares can then be liquidated and the money used to re-invest in other stocks or kept as cash.

Individuals involved in organized security fraud tend to operate in fluid networks and keep to short timeframes to limit the potential for detection by law enforcement or regulatory agencies. Schemes are often intentionally structured to stay under the radar. Individuals may use disposable cell phones in boiler rooms or Voice over Internet Protocol (VoIP) to target investors anonymously. Companies may maintain post office boxes in lieu of office addresses. If the fraud is detected, the fraudsters will often change their base of operations and the name of stocks and company listings.

Fraudsters can conduct schemes remotely using telemarketing techniques and Internet promotions in conjunction with virtual marketplaces, electronic trading systems and wire remittances. Technology enables perpetrators to undertake criminal activities anonymously, transfer funds quickly, and target victims over a broad geographic area. Many securities fraud schemes are national or transnational in scope, potentially targeting thousands of investors from multiple countries. According to the Canadian Anti-Fraud Centre, Canadian-based investment schemes have targeted individuals in the United States, Mexico, the United Kingdom, Denmark, Ireland and Côte d'Ivoire. Similarly, fraudsters operating outside Canada have conducted schemes that affected Canadian investors through listings on Canadian exchanges or by using information from hijacked online brokerage accounts.

In Canada, commonly observed securities frauds are illegal market manipulation, fraudulent high-yield investments schemes, illicit offshore investments, and Ponzi (pyramid) schemes.

TRENDS

The following trends are representative of securities frauds in general, and do not necessarily involve organized crime.

Securities fraud is becoming increasingly sophisticated. In the past several years, law enforcement has observed 'hybrid market manipulations.' These frauds combine elements from several schemes and involve multiple nominees, layered trust funds, and numerous domestic and offshore facilitators. The size and complexity of these schemes help conceal criminal activity, generate ample profits and facilitate tax evasion and money laundering. These types of operations require a minimum level of organization and generally do not involve solitary opportunists.

Boiler rooms using traditional telemarketing techniques are still prolific. However, online social networking sites, such as MySpace and Facebook, bulletin boards like Craigslist and Kijiji, and video-sharing sites like YouTube, provide fraudsters new fora. These sites can be used to issue professional-looking, but false, press releases and promotional material efficiently and anonymously. Social networking sites are also used to trade lists of victims and recruit accomplices.

CSA Investor Index 2009

- *Canadians are now more likely to report having been approached with fraudulent attempts: 26% say that they reported the attempt in 2009 (compared to 17% in 2007 and 14% in 2006).*
- *Most Canadians recognize various 'flags' that indicate potential fraudulent investments:*
  - *81%--no written information or a reluctance to provide it,*
  - *76%--a strong push to act now,*
  - *75%--a guarantee of high returns with little or no risk,*
  - *62%--the availability of inside information,*
  - *52%--being contacted by someone you do not know.*

Fraudsters use virtual marketplaces, electronic trading systems and wire remittances to access victims, buy/sell valuable data, and transfer funds anonymously to multiple jurisdictions. Criminals also use black-market carding websites to buy and sell stolen brokerage account information, advertise and trade illicit services.

Brokerage account hijackings are driven by the availability of black-market websites that illicitly sell the tools and services required to hack into secure accounts. Fraudsters who purchase stolen account information online are able to quickly liquidate the accounts for use in pump-and-dump schemes and avoid having to acquire the necessary technical expertise to hijack the accounts on their own.

"... I want to stress that economic crime truly is crime: serious crime. ...[It] is just as criminal as armed robbery, assault or breaking and entering. ...Economic crime has significant effects, damaging individuals, corporations, and whole economies."

— David Wilson, Chair, Ontario Securities Commission, Speech to the 2009 McMaster World Conference

PONZI SCHEMES

Ponzi schemes are pyramid schemes that typically use the promise of high returns to obtain funds raised from new investors to pay earlier investors. As the investment doesn't exist, the scheme eventually collapses when the number of new investors drops and earlier investors can no longer be paid.

The recent economic downturn exposed a number of fraudulent investment schemes that had lured investors with deceptive promises of unrealistic returns. Several years can elapse between the onset of a Ponzi scheme, when investors are first lured into the scheme, and its collapse. In the last several years, several high-profile Ponzi schemes with losses of approximately $320 million have been detected in Canada. These frauds affected thousands of investors in Canada who will recover little, if any, of their funds or retirement savings.

There are a number of commonalities among the Ponzi schemes that are highlighted below. These schemes tended to rely on affinity fraud—a particular type of scam that targets groups, such as religious groups, business groups, seniors' groups, ethnic communities or social clubs. The fraudster may be a member of the group, may know someone in the group, or may simply pose as a member to exploit systems of trust, such as those established through religion, language, culture or ethnicity. People are less likely to question advice that comes from someone they know. They are also often reluctant to report them to authorities or testify against them, particularly if they introduced family and friends to investments that they mistakenly believed to be legitimate.

"... Ponzi schemes have come under even greater focus by securities regulators. Similarly, boiler rooms – in which teams of people use the phone or internet to solicit investors using aggressive sales techniques – remain an area of focus for us."

— Jean St-Gelais, Chair, Canadian Securities Administrators. 2009 CSA Enforcement Report

Unregistered financiers often initiate these schemes by guaranteeing mathematically impossible rates of return by using invented (false) financial instruments. These self-styled financiers often use complex terminology and refer to their strategies as obscure or exclusive banking 'secrets' that cannot be shared with outsiders. Ponzi schemes often operate across multiple jurisdictions—including offshore—making it more difficult for authorities to detect and investigate.

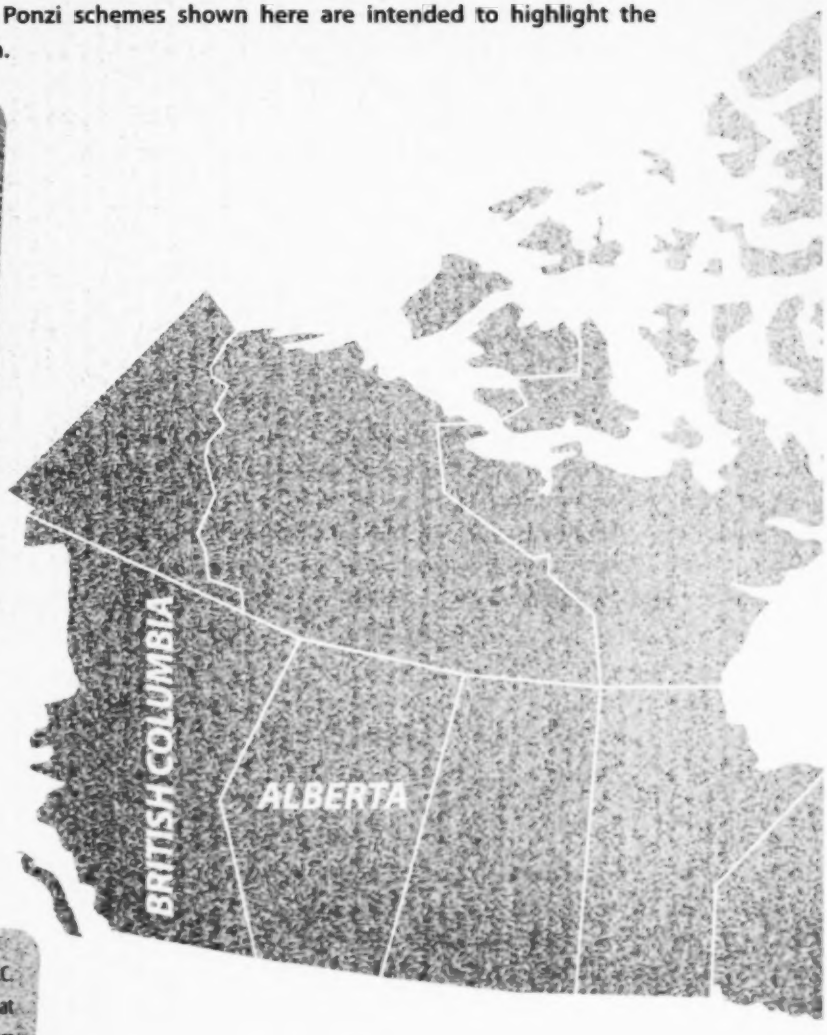
The cases of alleged and confirmed Ponzi schemes shown here are intended to highlight the commonalities discussed in this section.

Alberta Ponzi Scheme – $100 Million

In September 2009, two Alberta men were charged with fraud over $5,000 and theft over $5,000 in connection with an alleged Ponzi scheme that raised in excess of $100 million — and perhaps as much as $400 million — between 1999 and 2008. It is alleged that as many as 3,000 victims in Canada and the U.S. are victims of a gold-based investment scheme that promised annual returns of as much as 40% and tax advantages and funneled investments through a series of offshore shell companies.

Alberta Ponzi Scheme – $60 Million

In March 2010, four Albertans were charged in an alleged $60-million scheme in which various investment vehicles were offered that promised to pay returns of between 8 and 12 per cent without any financial risk. More than 1,000 people across North America were taken in by the fraudulent offer. No funds are left for investors to recover their losses.



British Columbia Ponzi Scheme – $10 Million

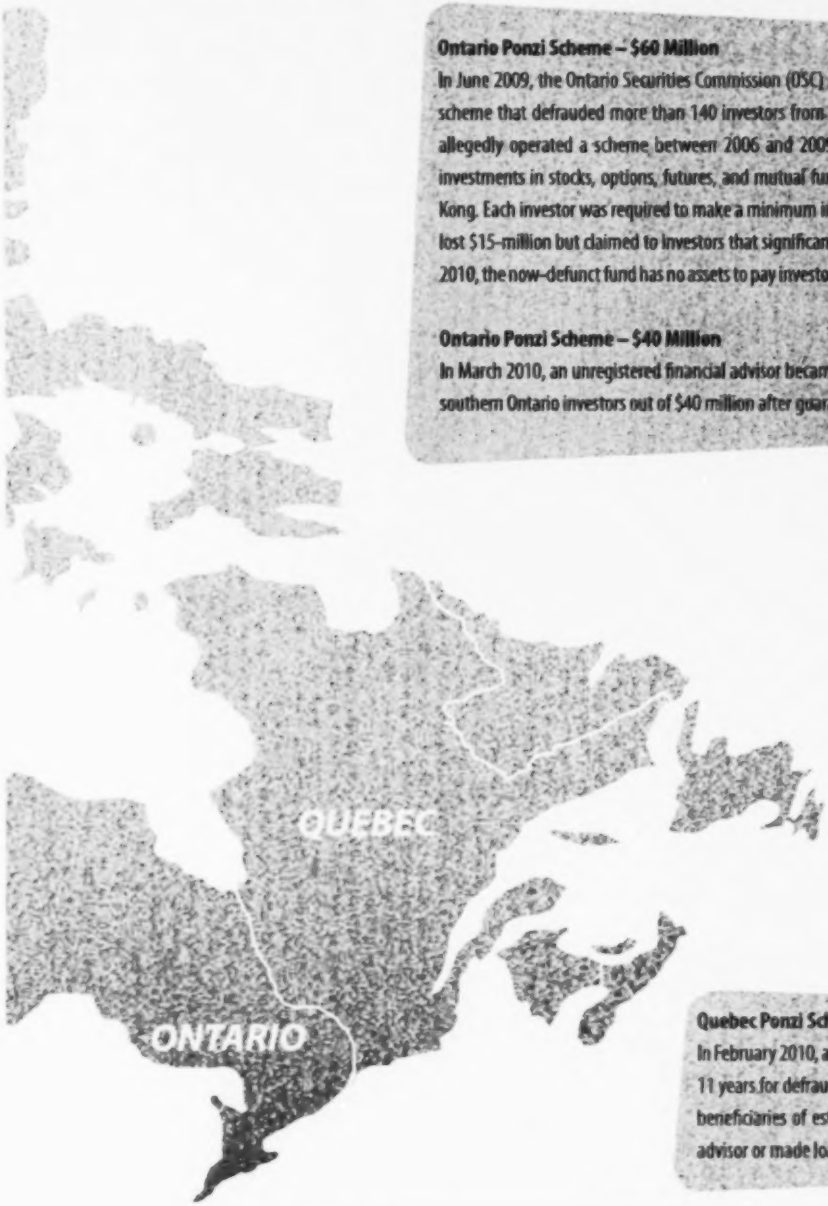
In August 2009, the B.C. Securities Commission (BCSC) ruled that four B.C. residents had perpetrated a Ponzi scheme between 2005 and 2007 that resulted in the losses in excess of $10 million by more than 800 investors in B.C. and elsewhere. The individuals made misrepresentations about the returns investors could expect — including a monthly return of 7%. The BCSC has yet to recover any of the remaining assets linked to the scheme.

Ontario Ponzi Scheme – $60 Million

In June 2009, the Ontario Securities Commission (OSC) charged an individual who is alleged to have undertaken a Ponzi scheme that defrauded more than 140 investors from Canada, the U.S. and China of about $60 million. The individual allegedly operated a scheme between 2006 and 2009 that promised to pay investors weekly profits of 1% through investments in stocks, options, futures, and mutual funds through stock markets in the United States, China and Hong Kong. Each investor was required to make a minimum investment of $150,000. The OSC states that in 2009 the individual lost $15-million but claimed to investors that significant profits were made. According to court documents filed in March 2010, the now-defunct fund has no assets to pay investors and the OSC has determined that all funds have been dissipated.

Ontario Ponzi Scheme – $40 Million

In March 2010, an unregistered financial advisor became the subject of a court case that alleged he defrauded dozens of southern Ontario investors out of $40 million after guaranteeing investment returns of between 17% and 25%.



Quebec Ponzi Scheme – $50 Million

In February 2010, an unregistered financial advisor in Montreal was sentenced to 11 years for defrauding 158 clients out of $50 million. Some of the victims were beneficiaries of estates he administered and to others he acted as a financial advisor or made loans to individuals.

VICTIMS OF FRAUD

Fraudulent activity in the markets reduces investor confidence and exposes the legitimate economy and individual investors alike to an increased risk of significant financial loss. The Canadian Anti-Fraud Centre (formerly PhoneBusters) reports that dollar losses per victim generally range from a few hundred to hundreds of thousands of dollars. In some cases, victims have reported losses in the millions. Victims can also experience a variety of physical and emotional problems. According to the 2007 CSA Investor Study: Understanding the Social Impact of Fraud:

- 36% reported that they experienced higher stress levels and 32% experienced increased feelings or displays of anger,
- 22% experienced depression and 20% reported feelings of extreme loss or isolation,
- 12% reported they were more vulnerable to physical illness, and
- 15% reported they were more vulnerable to panic or anxiety attacks.

According to the CSA, fraudsters use several means to build trust with potential victims and compel individuals to buy into fraudulent schemes. Common psychological tactics used include high-pressure sales pitches involving repeat calls and limited-time offers promising low-risk, high-profit returns. Fraudulent businesses make concerted efforts to appear legitimate, including using fake addresses in financial districts, toll-free numbers and professional-looking websites.

These deceptive tactics are intended to generate trust. Fraudsters are aware that some individuals are susceptible to repeat victimization and maintain and sell lists of past victims for use when initiating new schemes.

"Many people believe that securities fraud and other 'white-collar' crimes are victimless. However, when organized crime targets our market and our economy to support their own criminal enterprises, everyone pays the price."
Chief William Blair, Toronto Police Service

CSA Investor Index 2009

- *Thirty-eight per cent of Canadians have been approached with a fraudulent investment, a consistent number compared to 2007, 11% of whom have actually invested money in what turned out to be a fraudulent investment. Across Canada, 4% of Canadians have been fraud victims, the same incidence as in 2006 and 2007.*

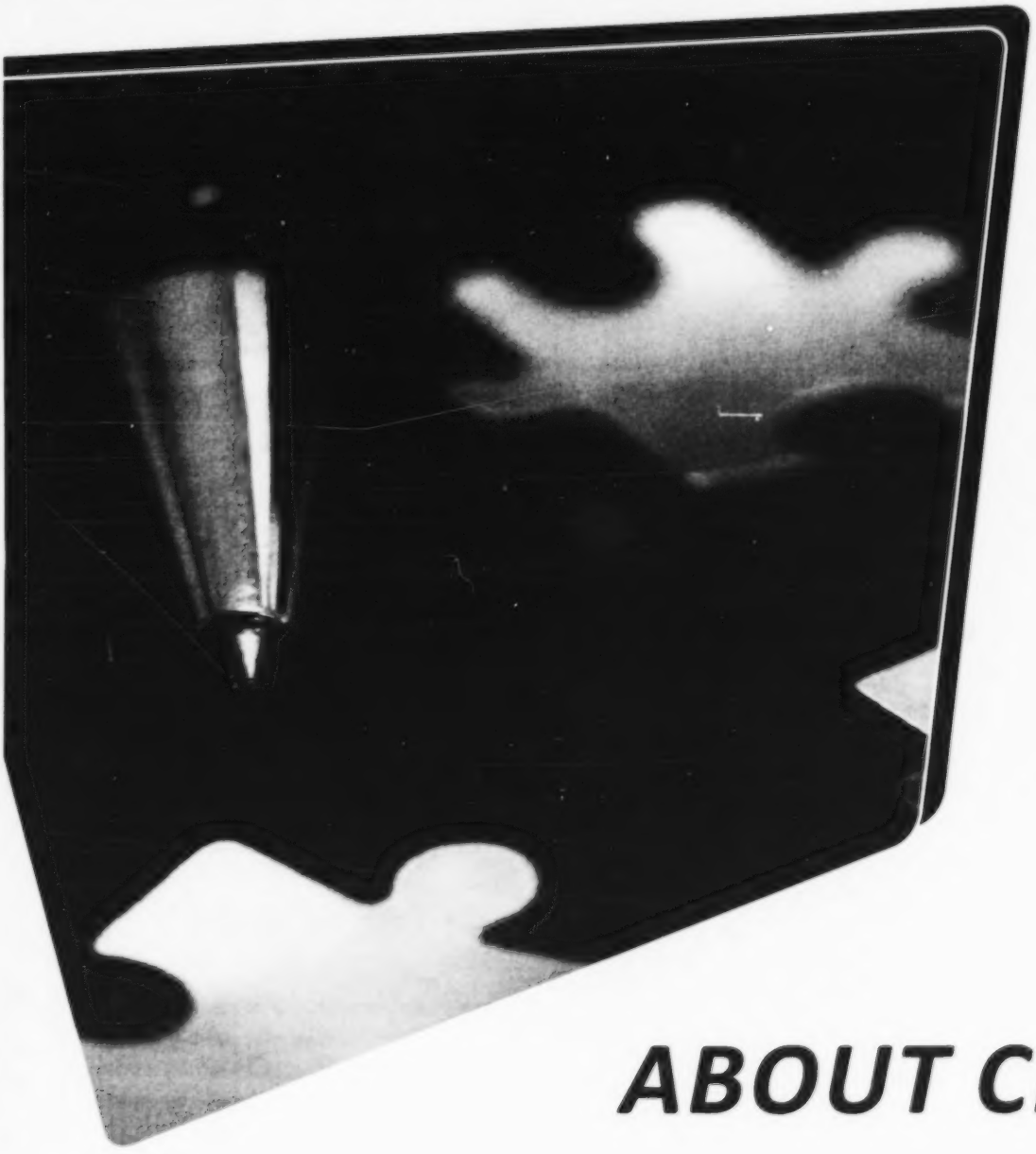
- *Canadians are mostly commonly targeted for investment fraud through email (33%), by a stranger on the telephone (28%), or through a friend, family member, neighbour or co-worker (18%).*

- *There is an increase in 2009 over 2007 in the incidence of repeat fraud victims: 65% of fraud victims invested in a fraudulent investment once, 21% report being victimized twice, and 8% report being victimized three to five times.*

- *The amount invested in fraudulent investments has increased. In 2009, 38% invested $5,000 or more compared to 32% in 2006. The average amount invested is $7,634 across Canada.*

- *Most money is never returned to victims. Seventy per cent of fraud victims recovered none of their money, the same level as in 2006.*

- *Anyone can be a victim of investment fraud but there are certain risk predictors of those who are more likely to invest in a fraudulent investment:*
  - **Over-confidence**: *Individuals who don't share decision-making with someone else in the household and are very confident about making investment decisions.*
  - *Frequent traders: Individuals who trade on a weekly basis.*
  - **Risk-oriented:** *Individuals who consider themselves very aggressive, agree that the riskier the investment, the greater the reward, and agree that if you do not act immediately you may miss a good opportunity. They frequently enter contests, lotteries or sweepstakes.*
  - **Highly educated:** *Of fraud victims surveyed, half have college or university undergraduate degrees, and 10% have post-graduate degrees.*



ABOUT CISC

As the voice of the Canadian criminal intelligence community, the fundamental purpose of Criminal Intelligence Service Canada (CISC) is to facilitate the timely and effective production and exchange of criminal intelligence. By identifying major developments and trends in criminal markets as well as those factors that are most likely to affect the dynamics of a particular criminal market, CISC is better able to determine which groups are well situated and have the capacity to adapt and capitalize upon these trends. This provides a comprehensive and current picture of the scope and direction of criminal activity.

CISC consists of a Central Bureau in Ottawa that liaises with, and collects intelligence from, ten Provincial Bureaus that serve all of Canada's provinces and territories. The Provincial Bureaus operate independently while maintaining common standards in the delivery of their products and services.

CISC MEMBERSHIP

CISC membership includes more than 400 agencies across the country. These agencies supply criminal intelligence to their respective Provincial Bureaus for further analysis and dissemination. The Provincial Bureaus in turn provide their findings to Central Bureau for analysis and the creation of strategic criminal intelligence products and services at a national level.

GOVERNANCE

CISC is governed by the CISC National Executive Committee, which is currently comprised of 25 senior executives from Canada's law enforcement community and chaired by the Commissioner of the Royal Canadian Mounted Police (RCMP). This committee meets to review the operation of CISC and to decide on communal goals. The Director General of CISC, who heads Central Bureau, is Secretary to the National Executive Committee and coordinates the efforts of all Provincial Bureaus in providing criminal intelligence products and services.

AUTOMATED CRIMINAL INTELLIGENCE INFORMATION SYSTEM

Central Bureau is the custodian of the Automated Criminal Intelligence Information System (ACIIS), which it manages on behalf of and in consultation with all CISC member agencies. Since its inception in 1976, CISC's member agencies have collaborated in the exchange of criminal intelligence by contributing to ACIIS. Recognizing that information sharing is pivotal to the fight against organized crime, the Federal Provincial and Territorial Deputy Ministers responsible for Justice endorsed the use of ACIIS in June 2009 as Canada's national database for criminal information and intelligence on serious and organized crime.

PERSONNEL

The Director General of CISC acts as liaison to the various stakeholder groups that are involved in combating the threat of serious and organized crime in Canada. In this capacity, the Director General also sits on the Canadian Integrated Response to Organized Crime (CIROC) committee and the National Coordinating Committee, which reports to the Federal, Provincial and Territorial (FPT) Deputy Ministers responsible for Justice. This committee enforces the FPT priorities that are set out in the National Agenda to Combat Organized Crime and looks towards shaping the future of Canada's efforts to fight organized crime.

The personnel of Central Bureau consists of RCMP employees, public service employees, and secondments from other law enforcement agencies. Secondments at Central Bureau currently include: Canada Border Services Agency, Correctional Service Canada, Canadian Forces Military Police, Ontario Provincial Police, Ottawa Police Service, Service de Police de la Ville de Montréal, Súreté du Québec, and Royal Newfoundland Constabulary. CISC's Central Bureau receives administrative and financial support from the RCMP through its Policing Support Services, which provides essential front-line support services to the law enforcement community in Canada and abroad.

EVALUATION FORM

CISC 2010 Report on Organized Crime

Criminal Intelligence Service Canada would like to receive feedback on its 2010 Report on Organized Crime to improve the quality of the report and its value to the Canadian public. CISC invites you to complete and return this evaluation form.

How informative is the Report on Organized Crime in each of the following areas?

Fundamentals of Organized Crime	No use	1	2	3	4	5	Most useful
Street Gangs in Canada	No use	1	2	3	4	5	Most useful
National Overview of Criminal Markets	No use	1	2	3	4	5	Most useful
Feature Focus: Securities Fraud	No use	1	2	3	4	5	Most useful

Please circle the number which best describes your judgment about the content of the report.

(1 = Poor and 5 = Excellent)

Organization of the report	1	2	3	4	5
Readability and clarity	1	2	3	4	5
Quality and usefulness of information	1	2	3	4	5
Design and layout	1	2	3	4	5
Level of detail provided	1	2	3	4	5
Overall value	1	2	3	4	5

How does the information in this report impact your views of organized crime?

_____

_____

_____

How can CISC improve the *Report on Organized Crime*?

_____

_____

_____

CISC welcomes your comments and requests that you complete the information box and return this form by e-mail, fax or mail to:

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1200 Vanier Parkway
Ottawa, Ontario K1A 0R2
Fax: 613.993.3928
E-mail: cisc@cisc.gc.ca

Province: _____
City/town: _____
Organization: _____
Date: _____
First time reading a CISC report: _____
Name (Optional): _____

THANK YOU FOR YOUR FEEDBACK.